

# **Gariep Municipality**

## **Audit Report**

**For the year ended 30 June 2014**



AUDITOR-GENERAL  
SOUTH AFRICA

The Accounting Officer  
Gariep Municipality  
Private Bag 03  
Burgersdorp  
9744

15 December 2014

Reference: 21294REG13/14

Dear Sir

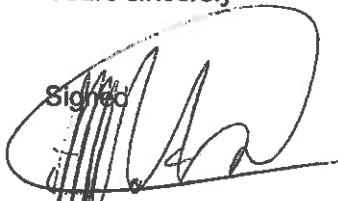
**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Gariep Local Municipality for the year ended 30 June 2014**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) (municipality) of the MFMA you are required to include the audit report in the Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA municipality audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



A handwritten signature in black ink, appearing to read "Sandile Hlatshwayo".

Sandile Hlatshwayo

Enquiries: Zamahlangu Mditshwa  
Telephone: (043) 709 7200  
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# REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE GARIEP LOCAL MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the financial statements of the Gariep Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for qualified opinion**

#### **Payables from non-exchange transactions**

6. I was unable to obtain sufficient appropriate audit evidence regarding the balance of payables from non-exchange transactions, as the municipality did not have a system in place to allocate unallocated receipts. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment relating to payables from non-exchange transactions stated at R29,1 million to the statement of financial position and note 14 was necessary.

#### **Qualified opinion**

7. In my opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Gariep Local Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

#### **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Restatement of corresponding figures**

9. As disclosed in note 40 to the financial statements, the corresponding figures have been restated as a result of errors only corrected during the year ended 30 June 2014 that existed in the financial statements at, and for the year ended, 30 June 2013.

#### **Material losses**

10. As disclosed in note 43.4 to the financial statements, the municipality incurred losses on the distribution of electricity amounting to R10,8 million during the year under review.

#### **Irregular expenditure**

11. As disclosed in note 42.3 to the financial statements, irregular expenditure amounting to R15,2 million was incurred by the municipality during the year ended 30 June 2014. This was as a result of non-compliance with procurement requirements.

#### **Financial sustainability**

12. While the municipality has prepared financial statements on a going concern basis there are a number of indicators that its financial sustainability is under threat. These include the following:
  - Revenue is being under collected,
  - Debts are not being paid timeously,
  - Medical and pension fund contributions are not paid over to the respective funds on time.
  - The municipality has defaulted on financial obligations on several projects
  - The municipality has an operating deficit that is more than 5% of the revenue

### **Additional matters**

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited supplementary schedules**

14. The supplementary annexures do not form part of the financial statements and are presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

### **Unaudited disclosure notes**

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

16. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for the selected objective presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2014:
  - KPA 2: infrastructure development and service delivery
18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
19. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. The material findings in respect of the selected objective are as follows:

## **KPA 2: Infrastructure development and service delivery**

### **Usefulness of reported performance information**

22. Section 41(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported indicators and targets were not consistent with those in the approved service delivery and budget implementation plan. The municipality did not have standard operating procedures or a policy to aid in the assessment and reporting of the outcomes of the IDP.
23. The FMPPI requires that performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.
24. The FMPPI requires that performance targets must be specific in clearly identifying the nature and required level of performance. A total of 90% of the targets were not specific.
25. The FMPPI requires that the period or deadline for delivery of targets must be specified. A total of 85% of the targets were not time bound.

### **Reliability of reported performance information**

26. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was because the auditee could not provide sufficient appropriate evidence in support of the reported performance information.

### **Additional matters**

27. I draw attention to the following matters:

### **Achievement of planned targets**

28. Refer to the annual performance report on pages XX to XX for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objective reported in paragraphs 21 to 25 of this report.

### **Unaudited supplementary schedules**

29. The supplementary information set out on pages XX to XX does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

### **Compliance with legislation**

30. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Budget**

31. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

## **Procurement management**

32. Sufficient appropriate audit evidence could not be obtained that all contracts had been awarded in accordance with the legislative requirements and a procurement process that is fair, equitable, transparent and competitive, as no supporting documents were issued by the municipality.
33. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) in accordance with section 18(1) of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000).
34. Construction projects were not always registered with the CIDB, as required by section 22 of the CIDB Act and CIDB regulation 18.
35. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, contrary to supply chain management (SCM) regulation 17(a) and (c).
36. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

## **Expenditure management**

37. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
38. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

## **Audit committee**

39. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by municipal planning and performance management regulation 14(4)(a)(ii).
40. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by municipal planning and performance management regulation 14(4)(a)(iii).
41. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

## **Internal audit**

42. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer and report to the audit committee on matters relating to internal controls, risk and risk management.
43. The internal audit unit did not advise the accounting officer or report to the audit committee on matters relating to compliance with the MFMA, D0RA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

## **Revenue management**

44. An effective system of internal control for debtors and revenue was not in place, as

required by section 64(2)(f) of the MFMA.

#### **Annual financial statements**

45. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Some material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
46. Financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

#### **Human resource management**

47. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) of the MSA.
48. The annual report of the municipality did not reflect information on compliance with prescribed minimum competencies, as required by minimum competency levels regulation 14(2)(b) or 14(3).

#### **Strategic planning and performance management**

49. The local community was not consulted by means of a municipal-wide structure for community participation in drafting and implementing the IDP, as required by section 28 of the MSA and municipal planning and performance management regulation 15(1)(a)(i).
50. The local community was not afforded the opportunity to comment on the final draft of the IDP before adoption, as required by section 42 of the MSA and municipal planning and performance management regulations 9, 13(1), 13(4)(c) and 15(3).
51. The performance management system did not provide for steps for improvement where performance targets were not met, as required by section 41(1)(d) of the MSA.
52. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and municipal planning and performance management regulations 1 and 9(1)(a).
53. Measurable performance targets for the financial year with regard to each of the development priorities or objectives and key performance indicators were not set out in the IDP, as required by section 41(1)(b) of the MSA and municipal planning and performance management regulation 12(1) and 12(2)(e).
54. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustment budget, as required by section 54(1)(c) of the MFMA.
55. The annual performance agreements for the municipal manager and all senior managers were not linked to the measurable performance objectives approved with the budget and to the service delivery and budget implementation plan, as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.

56. The performance management system and related controls were inadequate, as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement as well as how it should be conducted, organised and managed, including determining the roles of the different role players, as required by section 38 of the MSA and municipal planning and performance management regulation 7.

#### **Internal control**

57. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the qualified opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

#### **Leadership**

58. The leadership did not fulfil its oversight responsibilities with regard to the implementation and monitoring of internal controls and compliance with laws and regulations, and did not insist on daily disciplines to ensure sound financial and performance management and compliance with laws and regulations. This resulted in inaccurate, incomplete and inadequate financial and performance reporting.

59. The leadership did not set the tone at the top, as management was not held accountable for non-compliance with laws and regulations. In addition, a slow response by management to recurring issues resulted in repeated contraventions of the SCM regulations and irregular expenditure being incurred by the municipality.

#### **Financial and performance management**

60. Management did not adequately manage and monitor key daily and monthly processes, including reconciling accounts, maintaining registers and clearing suspense accounts throughout the financial year. This resulted in material misstatements in the financial statements submitted for auditing, inconsistencies in the annual performance report and non-compliance with laws and regulations.

61. The annual performance report contained numerous errors as it was not consistent with the approved service delivery budget implementation plan, there was also insufficient portfolio of evidence for the reported indicators. This was mainly due to staff members not being sufficiently skilled and fully understanding the performance information requirements.

#### **Governance**

62. There was no effective risk management over financial information, compliance with laws and regulations as well as reporting on predetermined objectives, as recurring findings in these areas were identified during the year. This is a critical area that the risk management process should address going forward.

63. Management has not implemented the recommendations from internal audit and this is evidenced by the number of material findings identified on the annual financial

statements and the annual performance report and instances of non-compliance identified.

64. The audit committee was not given sufficient time to discharge their function of reviewing the accuracy, reliability and adequacy of the financial statements and the annual performance report. As a result the review performed on the annual financial statements and the annual performance report did not have the desired impact on the fair presentation thereof as material misstatements were identified during the audit.

*Auditor - General*

15 December 2014



*Auditing to build public confidence*

